

VERNON DISTRICT PUBLIC LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|------------------------------|--|----------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Vernon District Public Library | County Shiawassee |
| Fiscal Year End December 31, 2005 | Opinion Date June 2, 2006 | Date Audit Report Submitted to State September 15, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

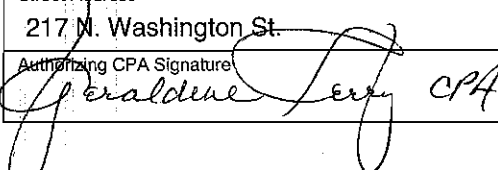
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☒ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Demis and Wenzlick, P.C. | | Telephone Number (989) 723-8227 | |
| Street Address 217 N. Washington St. | | City Owosso | State MI |
| Zip 48867 | | | |
| Authorizing CPA Signature  | | Printed Name Geraldine Terry, C.P.A. | License Number 1101026880 |



DEMIS and WENZLICK, P.C.

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INDEPENDENT AUDITOR'S REPORT

Vernon District Public Library Board
Vernon, Michigan

We have audited the accompanying general-purpose financial statements of Vernon District Public Library, Shiawassee County, Michigan, as of December 31, 2005. These financial statements are the responsibility of the Vernon District Public Library management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities as required by the Governmental Accounting Standards Board (GASB 34). Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. GASB 34 requires management's discussion and analysis which also has not been prepared.

In our opinion, except for the non-compliance of GASB 34, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Vernon District Public Library as of December 31, 2005, in conformity with generally accepted accounting principles.

Demis and Wenzlick, PC

Certified Public Accountants

June 2, 2006

VERNON DISTRICT PUBLIC LIBRARY
GENERAL FUND
COMPARATIVE STATEMENT
DECEMBER 31, 2005 AND 2004

ASSETS

| | <u>2005</u> | <u>2004</u> |
|--------------------------------|------------------|------------------|
| Cash - Checking | \$ 85,934 | \$166,914 |
| Cash - Certificates of Deposit | 126,791 | 18,815 |
| Accounts Receivable - Taxes | 52,840 | 48,159 |
| Accrued Interest Receivable | <u>1,012</u> | <u>-0-</u> |
| | <u>\$266,577</u> | <u>\$233,888</u> |

LIABILITIES AND FUND BALANCE

| | | |
|-----------------------|------------------|------------------|
| Accounts Payable | \$ 308 | \$ 884 |
| Payroll Taxes Payable | 1,307 | 1,162 |
| Fund Balance | <u>264,962</u> | <u>231,842</u> |
| | <u>\$266,577</u> | <u>\$233,888</u> |

The accompanying notes are an integral
part of the financial statements.

VERNON DISTRICT PUBLIC LIBRARY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2005 AND 2004

| | | <u>2005</u> | | <u>2004</u> |
|--|---------------|------------------|---------------------------|------------------|
| | | | ACTUAL (OVER) UNDER | |
| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>BUDGET</u> | <u>ACTUAL</u> |
| REVENUES: | | | | |
| Current Taxes | \$45,000 | \$ 52,821 | \$ (7,821) | \$ 48,158 |
| Penal Funds | 15,000 | 17,700 | (2,700) | 18,133 |
| State Aid | 4,100 | 4,331 | (231) | 4,346 |
| Donations | 600 | 807 | (207) | 2,520 |
| Village of Vernon | 1,000 | 2,000 | (1,000) | 1,000 |
| Fines, Copies, Misc. | 500 | 1,182 | (682) | 1,123 |
| Interest Income | <u>-0-</u> | <u>4,443</u> | <u>(4,443)</u> | <u>2,254</u> |
| TOTAL REVENUES | \$66,200 | \$ 83,284 | \$ (17,084) | \$ 77,534 |
| EXPENDITURES: | | | | |
| Land | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| Building - New | 18,200 | 5,017 | 13,183 | 14,916 |
| Equip. & Automation | 1,275 | 1,274 | 1 | 1,774 |
| Books & Mags. | 7,000 | 4,827 | 2,173 | 4,911 |
| Communications | 1,300 | 1,271 | 29 | 1,653 |
| Insurance | 2,700 | 3,025 | (325) | 3,006 |
| Supplies & Misc. | 2,175 | 2,083 | 92 | 255 |
| Wages | 28,300 | 27,171 | 1,129 | 24,102 |
| Payroll Taxes | 2,100 | 2,381 | (281) | 2,082 |
| Audit | 950 | 950 | -0- | 900 |
| Co-Op | <u>2,200</u> | <u>2,165</u> | <u>35</u> | <u>2,169</u> |
| TOTAL EXPENDITURES | \$66,200 | \$ 50,164 | \$ 16,036 | \$ 55,768 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ <u>-0-</u> | \$ 33,120 | \$ <u>(1,048)</u> | \$ 21,766 |
| Fund Balance at Beginning of Year | | <u>231,842</u> | | <u>210,076</u> |
| FUND BALANCE AT YEAR END | | <u>\$264,962</u> | | <u>\$231,842</u> |

The accompanying notes are an integral part of the financial statements.

VERNON DISTRICT PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Vernon District Public Library have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A - FUND ACCOUNTING

The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: Governmental, Proprietary and Fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

VERNON DISTRICT PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements on these funds present increases (i.e. revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund liability is incurred.

Those revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, and charges for services. Sales taxes collected and held by the state at year end on behalf of the government also are recognized as revenue. Fines, permits and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The government reports deferred revenue on its combined balance sheet. Deferred revenue arise when a potential revenue does not meet the "measurable" and "available" criteria for recognition are received by the government before its has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

VERNON DISTRICT PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BUDGETS

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is not utilized in the governmental funds. Encumbrances outstanding at year end are not reported as reservations of fund balances and also do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

D. CASH AND INVESTMENTS

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

E. FIXED ASSETS

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed asset account group. All purchase fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Assets in the general fixed assets account group are not depreciated.

VERNON DISTRICT PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. COMPENSATED ABSENCES AND POST EMPLOYMENT BENEFITS

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expendable available financial resources is reported as an expenditures and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for those amounts. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Under the Consolidated Omnibus Budgeting Reconciliation Act (COBRA) certain requirements are outline for health insurance coverage of former employees and eligible dependents. The Library does not have health insurance coverage for its employees, therefore, there are no post-employment health care benefits.

G. COMPARATIVE DATA

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations. However, comparative data have been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

H. ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, and the reported revenues and expenses.

VERNON DISTRICT PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2005

NOTE 2. LEGAL COMPLIANCE - BUDGETS

Before the beginning of each fiscal year requests for appropriations are submitted so that a budget may be prepared. Once the budget is prepared it is submitted to the board for approval.

Any changes in the budget must be within the revenues and reserves estimated as available or the revenue estimates must be changed by an affirmative vote of a majority of the board. Expenditures may not legally exceed budgeted appropriations where necessary.

NOTE 3. CASH AND CERTIFICATES OF DEPOSIT

| <u>INSTITUTION</u> | <u>AMOUNT</u> | <u>FDIC INSURED</u> | <u>UNINSURED</u> |
|--------------------|------------------|---------------------|------------------|
| A | | | |
| Demand Deposits | \$ 85,934 | \$ 85,934 | \$ -0- |
| Time Deposits | <u>126,791</u> | <u>100,000</u> | <u>26,791</u> |
| | <u>\$212,725</u> | <u>\$185,934</u> | <u>\$26,791</u> |

NOTE 4. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18 (a) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown based on the type of revenue or expenditure. The approved budgets of the Library were adopted to this level.

VERNON DISTRICT PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2005

NOTE 4. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)

During the year ended December 31, 2005, the library incurred expenditures in certain budgetary line items which were in excess of the amounts appropriated, as follows:

| | <u>TOTAL</u> <u>APPROPRIATIONS</u> | <u>AMOUNT OF</u> <u>EXPENDITURE</u> | <u>BUDGET</u> <u>VARIANCE</u> |
|---------------|---------------------------------------|--|----------------------------------|
| Insurance | \$ 2,700 | \$ 3,025 | \$ 325 |
| Payroll Taxes | 2,100 | 2,381 | 281 |

NOTE 5. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

| | <u>BALANCE</u> <u>12-31-04</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>BALANCE</u> <u>12-31-05</u> |
|----------------|-----------------------------------|------------------|------------------|-----------------------------------|
| Land | \$19,908 | \$ -0- | \$ -0- | \$19,908 |
| Building - New | 11,713 | 2,927 | -0- | 14,640 |
| Library | <u>30,992</u> | <u>-0-</u> | <u>-0-</u> | <u>30,992</u> |
| | <u>\$62,613</u> | <u>\$ 2,927</u> | <u>\$ -0-</u> | <u>\$65,540</u> |



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June 2, 2006

Members of the Vernon District Library Board
Vernon, Michigan

In compliance with the provisions of Section 11, Paragraph 2, of Act 2, Public Acts of 1968, we wish to render our report of comments and recommendations which were formulated as a result of the examination our firm performed on the financial statements of the Vernon District Public Library, for the year ended December 31, 2005.

BUDGET

The state revenue sharing distribution law, P.A. 176, of 1980, includes a compliance requirement in budgeting. It is important under this act that expenditures do not exceed budget. Expenditures include accounts payable at December 31, 2005. Budgeted expenditures cannot exceed budgeted revenues plus the beginning fund balance.

During our audit we noticed two expenditure accounts exceeded budgeted amounts. Expenditures should be monitored so that the budget is not exceeded. The budget may be amended prior to the end of the fiscal year.

We wish to thank the board and staff of the Vernon District Public Library for the excellent cooperation we received in performing the library audit. If we can be of any further assistance to the Library, please contact us.

Demis and Wenzlick, PC

Certified Public Accountants